

**BRANDEIS SUMMER SCHOOL**  
**ECON 171A: FINANCIAL ECONOMICS**  
**SYLLABUS**

**Summer 2018 (Jul. 9 – Aug. 10)**  
**M, T, Th. 8:30am-10:50am**  
**Room: TBD**

**Instructor Jean Claude Makolo**  
**Office: TBD**  
**Office hours: M, Th. 11:00am – 12:00pm**

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### **Prerequisites and Co-requisites**

Econ 80a and Econ 83a are pre-requisites for this course. The course may not be taken for credit by students who have previously taken Fin201A. Students should have a basic understanding of microeconomics, statistics, and algebra.

### **Course Description**

The course covers topics related to financial economics, including investors' attitudes toward risk, capital allocation, portfolio selection, asset pricing models (Capital Asset Pricing Model and Arbitrage Pricing Theory), the efficient market hypothesis, fixed income markets, equity valuation, and options and futures markets.

### **Learning Goals**

- Understand the fundamental principles of investment in financial markets (how investors make investment decisions; what determines returns and asset valuations)
- Gain a quantitative understanding of capital allocation decisions, equity valuation, bond markets, and option pricing (Increase understanding of current events in financial markets)

### **Method of Instruction**

The course is a combination of lectures, class discussions of current market topics, and problem solving. This course is reasonably technical in nature, and it requires each student to do considerable out-of-class work. Problem solving is very important in this course and I encourage participation from all my students in this activity throughout the term. You should read the assigned book chapters prior to

coming to class. The material will mean a great deal more to you, and you will understand and retain much more of it, especially when you review the class notes and problems. You are required to attend all classes, participate in class discussions.

## **Course Materials**

**Textbook:** Investments, 11th Edition, Bodie, Kane, and Marcus, McGraw-Hill. You may also use earlier editions of this book but beware of differences from the 11<sup>th</sup> edition in several parts.

**Lectures and Other Materials:** They will be posted on LATTE at least 48 hours before each class. I highly recommend that you read posted materials before coming to class. You should also keep up with general financial news. This will form part of the basis for class discussion.

## **Quizzes & Problem Sets**

You might have about 4 short quizzes each of which will be taken during the first 10 to 15 minutes of the class every Monday. Each quiz, along with the materials it will cover, will be announced one week in advance. So, please make sure not be late on the day a quiz is scheduled as make-up quizzes are out of question.

In addition to quizzes, you will have about 4 problem sets due on Mondays at the beginning of the class. **No late submission accepted!** You will also be provided with additional practice problems on various topics; these problems will be discussed by the TA during scheduled review sessions. I cannot overemphasize the importance of practicing these problems to help you get a better understanding of covered materials.

## **Grading**

Your grade will be based on class participation (**class discussion + class attendance**), problem sets, quizzes, midterm exam, and final exam. If you think you may have to miss the midterm, you need to contact me *before* the exam and have a *very* good reason. There will be no make-up problem sets, quizzes, or midterm exam. If you miss it, more weight will be put on the other components of your grade. The midterm exam will cover material covered up to the point at which the exam is held.

The final grade will be determined according to the following components:

- 1) Class Participation: 10%
- 2) Quizzes: 15%
- 3) Problem Sets: 15%
- 4) Midterm Exam: 30% (**Monday, July 23<sup>rd</sup>, 2018**)
- 5) Final Exam: 30%

### **Use of Laptop Computers, Cell Phones, and Calculator in Class**

Cell phones and PDA.s (i.e., BlackBerrys, iPhones, etc.) must be turned off during lectures. Laptops may be used but only to browse the lecture slides or take notes. Regular class attendance is very strongly advised if you want to do well in the course. Laptop computers and cell phones may not be used during exams. You may use a financial calculator for weekly problem sets. However, you will need **only a standard scientific calculator** for the quizzes, midterm exam, and final exam.

### **Accommodation for disabilities**

If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me immediately. For more information go to: <http://www.brandeis.edu/disability>

### **Academic Integrity**

The instructor enforces all University rules, especially those regarding academic honesty and integrity. Note: there is a zero tolerance level in this area. Plagiarism is cheating. The use of another's material without permission and without recognition is cheating. This applies to text books, solution manuals, study guides, a friend's assignment, past assignments, internet resources or any other material irrespective of the source.

You are expected to be familiar with and to follow the University's policies on academic integrity: See: "Brandeis University Rights and Responsibilities" chapter 3; (<http://www.brandeis.edu/studentlife/sdc/rr/>).

Here is the first part: "3.0 Every member of the University community is expected to maintain the highest standards of academic integrity. A student shall not submit

work that is falsified or is not the result of the student's own effort. Infringement of academic honesty by a student subjects that student to serious penalties that may include failure on the assignment, failure in the course, suspension from the University or other sanctions (see Section 21). A student who is in doubt regarding standards of academic honesty in a course or assignment should consult the faculty member responsible for that course or assignment before submitting the work. A student's lack of understanding is not a valid defense to a charge of academic dishonesty.” If you are ever in doubt about any of these rules please contact me immediately.

Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University.

## **DETAILED COURSE OUTLINE:**

The course outline (below) lists the topics expected to be covered and the readings for each class.

<b><u>Date:</u></b>	<b><u>Lectures and TA sessions</u></b>	<b><u>Reading (BKM):</u></b>
7/9 (M)	<b>Lecture 1:</b> Overview of Course & Financial Securities	1.1-1.2, 1.4, 2, 3.1-3.2, 3.4, 3.7-3.9
7/10 (T)	<b>Lecture 2:</b> Time Value of Money, Review of Statistical Concepts	5.6-5.7
7/12 (Th.)	<b>Lecture 3:</b> Risk and Return	5.1-5.5
7/16 (M)	<b>Lecture 4:</b> Risk Preference and Capital Allocation	6
7/17 (T)	<b>Lecture 5:</b> Portfolio Selection, Markowitz Portfolio Optimization	7.1-7.4
7/19 (Th.)	<b>Lecture 6:</b> Index Models, Capital Asset Pricing Model	8, 9
<b>7/23 (M)</b>	<b><u>Mid-Term Exam</u></b>	
7/24 (T)	<b>Lecture 7:</b> Arbitrage Pricing Theory & Efficient Market Theory	10.1-10.4, 11.1-11.4
7/26 (Th.)	<b>Lecture 8:</b> Behavioral Finance and Technical Analysis	12
7/30 (M)	<b>Lecture 9:</b> Bond Valuation	14
7/31 (T)	<b>Lecture 10:</b> Term Structure of Interest Rates & Bond Duration	15, 16
8/2 (Th.)	<b>Lecture 11:</b> Equity Valuation Models	18.1-18.5
8/6 (M)	<b>Lecture 12:</b> Option Valuation	21.1-21.4
8/7 (T)	<b>Lecture 13:</b> Futures Markets	22
<b>8/9 (Th.)</b>	<b><u>Final Exam</u></b>	